

## *MEMORANDUM*

**DATE:** February 5, 2004

**TO:** Health and Human Services Appropriations Subcommittee

**FROM:** Greg Boattenhamer, Iowa Hospital Association

**SUBJECT:** Hospital Impact of Medicare Prescription Drug Bill

Thank you for the opportunity to share the following highlights regarding the financial impact of the recent Medicare Prescription Drug Bill upon Iowa hospitals.

The Iowa Hospital Association (IHA) endorsed this legislation largely because Iowa and other rural states serve a disproportionate number of Medicare patients where Medicare payments do not cover hospitals' costs of providing services. In Iowa, Medicare accounts for nearly one-half of total hospital revenue. Prior to passage of the Medicare Prescription Drug Bill, Iowa hospital losses from Medicare totaled \$100 million annually, or roughly seven percent *below* actual hospital costs for treating Medicare beneficiaries. IHA estimates that the total financial impact of the federal legislation will bring in excess of \$300 million to Iowa hospital over the next 10 years. Even with the reforms included in the new legislation, Iowa hospitals will continue to lose massive amounts of revenue (\$70 million annually) to Medicare, and Iowans will continue to subsidize this federal program by covering those losses.

Among the notable hospital provisions included in the legislation:

**Lowering the Labor Share of Hospital Wage Index.** Beginning October 1, 2004, the labor-related share of the Iowa Inpatient Prospective Payment System will be reduced from 71 percent to 62 percent of the standardized amount. This revision will provide additional payment to all Iowa hospitals.

**Full Market Basket Update (with submission of quality data).** Hospitals paid on the Prospective Payment System will receive a full market basket update (3.4 percent) for FY 2004. For FY 2005-2007, these hospitals will receive a full market basket update each year they submit data on the ten quality indicators in the National Voluntary Hospital Reporting Initiative, which IHA endorses. Hospitals not submitting quality data will receive updates of Market Basket minus .4 percent.

**Equalization of the Standardized Amount.** This provision will eliminate the disparity between large urban hospitals and rural and small urban hospitals by permanently equalizing the Medicare inpatient base payment (standardized amount) starting April 1, 2004.

**Critical Access Hospital (CAH) Improvements.** The Critical Access Hospital Program was created in 1997 to assist small rural, limited-service hospitals. Unlike larger facilities, CAHs receive cost-based reimbursement if they meet certain service guidelines such as bed limits, staffing, and emergency care. The legislation provides additional funding and flexibility by increasing in payments to 101 percent of costs; increasing the bed limit to 25 acute-care beds; authorizing periodic interim payments; paying for costs of an expanded number of emergency room on-call providers; permitting psychiatric and rehabilitation distinct part units; and providing four additional years of special grant funding. Iowa currently has 54 Critical Access Hospitals; this legislation may enable another 10 Iowa hospitals to qualify for this program. However, Critical Access Hospitals encompass well under 10 percent of total Iowa Medicare hospital revenue.

**Indirect Medical Education.** Medicare provides additional payments to hospitals that incur the costs of providing graduate medical education. Current law sets this payment level at 5.5 percent. This provision increases that percentage over the next three years.

**Medicaid Disproportionate Share (DSH).** The bill eliminates the DSH “cliff” in FY04 by increasing state allotments by 16 percent with inflationary adjustments thereafter. Also, “low-DSH” allotments increase by 16 percent per year for each of the next five years. This will allow low DSH states like Iowa to receive additional federal funding *if* the state participates with the appropriate matching appropriation.

The Iowa Hospital Association can provide greater detail if the Subcommittee so wishes. In addition, more detailed modeling of all the provisions contained in the Medicare Prescription Drug Bill will be available in the future as further Medicare payment details emerge. Even though IHA estimates the total impact of this legislation to be in excess of \$300 million for Iowa hospitals, those assumptions are built upon *no legislative changes* to the current Medicare payment structure over the next 10 years.